

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Battle Creek Transit System	County Calhoun
Fiscal Year End June 30, 2006	Opinion Date November 1, 2006	Date Audit Report Submitted to State December 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

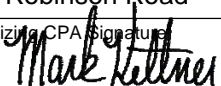
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

BATTLE CREEK TRANSIT SYSTEM

Battle Creek, Michigan

**Financial Statements
And
Supplementary Information**

**For the Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

BATTLE CREEK TRANSIT SYSTEM

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REHMANN ROBSON

Certified Public Accountants

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BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

November 1, 2006

Honorable Mayor and Members of
the City Commission
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the ***Battle Creek Transit System, an enterprise fund of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City of Battle Creek's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Battle Creek Transit System and do not purport to, and do not present fairly the financial position of the City of Battle Creek, Michigan, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Battle Creek Transit System, an enterprise fund of the City of Battle Creek, Michigan as of June 30, 2006, and the changes in financial position thereof and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Battle Creek Transit System. The information on pages 9 through 14 has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The information on pages 15 through 16 has not been subjected to the procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



FINANCIAL STATEMENTS

BATTLE CREEK TRANSIT SYSTEM
Statement of Net Assets
June 30, 2006

Assets

Current assets:

Grants receivable	\$ 845,357
Inventory	96,436
Other assets	<u>63,203</u>

Total current assets	1,004,996
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Capital assets, net	<u>2,317,216</u>
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Total assets	<u><u>3,322,212</u></u>
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Liabilities, all current

Accrued payroll and compensated absences	72,156
Interfund payable to other funds of the City	<u>593,831</u>

Total current liabilities	<u>665,987</u>
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Net assets

Investment in capital assets	2,317,216
Unrestricted	<u>339,009</u>

Total net assets	<u><u>\$ 2,656,225</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK TRANSIT SYSTEM
Statement of Revenue, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2006

Operating revenue	
Line-haul (farebox)	\$ 333,568
Advertising	24,685
Other operating revenue	39,758
Total operating revenue	<u>398,011</u>
Operating expenses	
Operations	2,761,070
Maintenance	626,443
General administration	389,018
Total operating expenses	<u>3,776,531</u>
Operating loss	<u>(3,378,520)</u>
Non-operating revenue (expense)	
Federal grants	843,849
State grants	1,538,331
Loss on disposal of assets	(19,622)
Total non-operating revenue	<u>2,362,558</u>
Net loss before transfers	(1,015,962)
Transfers in from other funds	895,607
Transfers out to other funds	<u>(4,550)</u>
Change in net assets	(124,905)
Total net assets, beginning of year	<u>2,781,130</u>
Total net assets, end of year	<u><u>\$ 2,656,225</u></u>

The accompanying notes are an integral part of these financial statements

BATTLE CREEK TRANSIT SYSTEM
Statement of Cash Flows
For the Year Ended June 30, 2006

Cash flows from operating activities

Receipts from customers and users	\$ 398,011
Payments to suppliers	(1,005,292)
Payments to employees	(2,513,732)
Payments for interfund services	<u>(271,696)</u>

Net cash used in operating activities	<u>(3,392,709)</u>
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Cash flows from non-capital financing activities

Transfers in	895,607
Transfers out	(4,550)
Federal and state grants	<u>2,543,569</u>

Net cash provided by non-capital financing activities	<u>3,434,626</u>
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Cash flows from capital and related financing activities

Purchase of capital assets	<u>(41,917)</u>
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Net cash used in capital and related financing activities	<u>(41,917)</u>
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Net decrease in cash and cash equivalents	-
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Pooled cash and investments, beginning of year	<u>-</u>
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Pooled cash and investments, end of year	<u><u>\$ -</u></u>
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Reconciliation of operating loss

to net cash used in operating activities

Operating loss	\$ (3,378,520)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	335,911
Changes in assets and liabilities:	
Inventory	11,772
Other assets	(63,203)
Accrued payroll and compensated absences	(15,335)
Interfund payable	<u>(283,334)</u>

Net cash used in operating activities	<u><u>\$ (3,392,709)</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Battle Creek Transit System (the “System”) is an enterprise fund of the City of Battle Creek, Michigan. The System provides public transportation services to users in the City of Battle Creek and portions of the surrounding area. The accounting policies of the System conform with generally accepted accounting principles as applicable to proprietary funds. A summary of significant accounting policies follows.

Reporting Entity - These financial statements represent the financial condition, results of operations and cash flows of an enterprise fund of the City of Battle Creek, Michigan (the “City”) and are an integral part of that reporting entity. The System is not a component unit of the City or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Basis of Accounting - The System uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position, the results of its operations and its cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The System is operated as an enterprise fund, which is used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The System applies all applicable FASB pronouncements issued through November 30, 1989 in accounting and reporting for its proprietary operations. The System has elected not to follow subsequent private-sector guidance.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Pooled Cash and Investments – The System’s pooled cash and investments, if any, represents amounts deposited entirely in the City’s internal cash management pool.

Inventory – Inventory is valued at cost using the first-in/first-out method.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

Capital Assets – Capital assets, which include property and equipment, are reported at cost or, if donated, at their estimated fair value on the date donated. The System defines capital assets as assets with an initial, individual cost of \$10,000 or more and estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The System's capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings	50
Equipment	3-10
Furniture and fixtures	6-10
Vehicles	7-10

Compensated Absences - Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. Sick pay benefits are not provided pursuant to the City's short-term disability program.

2. POOLED CASH AND INVESTMENTS

The System, along with the various other funds of the City, participates in the City's pooled cash management accounts. At June 30, 2006, the System had a negative cash balance in the City's cash pool of \$593,831, which is reported in the accompanying statement of net assets as an *interfund payable*. Information regarding this internal cash management pool is presented in the City's comprehensive annual financial report.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 66,499	\$ -	\$ -	\$ 66,499
Capital assets, being depreciated:				
Land improvements	26,130	-	-	26,130
Buildings	2,399,385	21,292	-	2,420,677
Equipment	1,584,016	20,624	(466,303)	1,138,337
Vehicles	7,046,268	-	(2,992,014)	4,054,254
Total capital assets being depreciated	11,055,799	41,916	(3,458,317)	7,639,398
Less accumulated depreciation for:				
Land improvements	16,984	2,614	-	19,598
Buildings	740,916	80,126	-	821,042
Equipment	1,635,043	87,827	(466,303)	1,256,567
Vehicles	6,098,522	165,344	(2,972,392)	3,291,474
Total accumulated depreciation	8,491,465	335,911	(3,438,695)	5,388,681
Total capital assets being depreciated, net	2,564,334	(293,995)	(19,622)	2,250,717
System capital assets, net	\$ 2,630,833	\$ (293,995)	\$ (19,622)	\$ 2,317,216

4. RISK MANAGEMENT

The System participates in the City's self-insurance program for liability and worker's compensation insurance coverage. Property insurance coverage is provided by commercial carriers through the City's self-insurance fund.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

5. CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the System. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

* * * * *

SUPPLEMENTARY INFORMATION

BATTLE CREEK TRANSIT SYSTEM
Schedule of Operating and Non-Operating Revenue
For the Year Ended June 30, 2006

	7/1/05 through 9/30/05	10/1/05 through 6/30/06	Total
Operating revenue			
Line-haul (farebox)	\$ 85,228	\$ 248,340	\$ 333,568
Advertising	11,515	13,170	24,685
Other operating revenue	2,476	37,282	39,758
	<u>99,219</u>	<u>298,792</u>	<u>398,011</u>
Total operating revenue	<u>\$ 99,219</u>	<u>\$ 298,792</u>	<u>\$ 398,011</u>
Non-operating revenue (expense)			
Federal grants:			
Operating grant - Section 9	\$ -	\$ 787,265	\$ 787,265
Capital grants	-	56,584	56,584
	<u>-</u>	<u>843,849</u>	<u>843,849</u>
State of Michigan grants:			
Formula operating assistance	340,339	1,108,139	1,448,478
Capital and specialized services	3,068	86,785	89,853
	<u>343,407</u>	<u>1,194,924</u>	<u>1,538,331</u>
Transfers in from other funds	223,902	671,705	895,607
Transfers out to other funds	<u>(1,137)</u>	<u>(3,413)</u>	<u>(4,550)</u>
Total non-operating revenue	<u>\$ 566,172</u>	<u>\$ 2,707,065</u>	<u>\$ 3,273,237</u>

BATTLE CREEK TRANSIT SYSTEM
Schedule of Operating Expenses
For the Year Ended June 30, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor:				
Operators' salaries and wages	\$ 1,091,796	\$ -	\$ -	\$ 1,091,796
Other salaries and wages	-	230,148	150,446	380,594
Fringe benefits	775,632	162,682	87,693	1,026,007
Services:				
Advertising	-	-	11,949	11,949
Other services	106,517	78,638	38,108	223,263
Materials and supplies:				
Fuel and lubricants	246,251	-	-	246,251
Other materials and supplies	192,921	41,961	14,078	248,960
Utilities	-	-	40,796	40,796
Insurance expense	-	112,869	44,140	157,009
Leases and rentals	12,042	145	1,808	13,995
Depreciation	335,911	-	-	335,911
Total operating expenses	<u><u>\$ 2,761,070</u></u>	<u><u>\$ 626,443</u></u>	<u><u>\$ 389,018</u></u>	<u><u>\$ 3,776,531</u></u>

BATTLE CREEK TRANSIT SYSTEM
Net Eligible Cost Computations of General Operations
For the Year Ended June 30, 2006

	7/1/05 through 9/30/05	10/1/05 through 6/30/06	Total
Expenses			
Labor	\$ 353,166	\$ 1,119,224	\$ 1,472,390
Fringe benefits	257,567	768,440	1,026,007
Services	89,496	145,716	235,212
Materials and supplies	91,230	403,981	495,211
Utilities	3,412	37,384	40,796
Insurance expense	28,217	128,792	157,009
Leases and rentals	587	13,408	13,995
Depreciation	83,978	251,933	335,911
	<hr/>	<hr/>	<hr/>
Total expenses	907,654	2,868,877	3,776,531
	<hr/>	<hr/>	<hr/>
Less ineligible expenses and contra-expenses			
Depreciation on capital assets acquired with federal and state grants	81,293	243,879	325,172
Michigan Public Transit Association dues	-	257	257
American Public Transit Association dues	886	-	886
	<hr/>	<hr/>	<hr/>
Total ineligible expenses and contra-expenses	82,179	244,136	326,315
	<hr/>	<hr/>	<hr/>
Eligible expenses	<u><u>\$ 825,475</u></u>	<u><u>\$ 2,624,741</u></u>	<u><u>\$ 3,450,216</u></u>

BATTLE CREEK TRANSIT SYSTEM
Net Eligible Cost Computations of
General Operations (Concluded)
For the Grant Year Ended September 30, 2005

Eligible expenses - 10/1/04 through 6/30/05	\$ 3,049,932
Eligible expenses - 7/1/05 through 9/30/05	<u>825,475</u>
Total eligible expenses - grant year ended 6/30/06	<u><u>\$ 3,875,407</u></u>
 Maximum state operating assistance	
Greater of:	
39.9234% of eligible expenses	<u><u>\$ 1,547,194</u></u>
1997 operating assistance (mandatory floor)	<u><u>\$ 972,388</u></u>
 Maximum state operating assistance *	 <u><u>\$ 1,547,194</u></u>

* Reimbursement based on 39.9234% of eligible expenses.

BATTLE CREEK TRANSIT SYSTEM
Schedule of Federal Grant Funding
For the Year Ended June 30, 2006

<u>Federal/Pass-through Grantor Program Title/Program Number</u>		<u>Award Amount</u>	<u>(Accrued) Deferred Revenue at 6/30/2005</u>	<u>Federal Receipts</u>	<u>Federal Expenditures</u>	<u>(Accrued) Deferred Revenue at 6/30/2006</u>	<u>Federal Revenue Recognized</u>
U.S. Department of Transportation - Federal Transit Administration							
CFDA Number 20.507 - Capital, Planning and Operating Assistance (Section 5307):							
Operating	MI-90-X478-00	\$ 769,640	(769,640)	775,164	5,524	\$ -	\$ 5,524
Operating	MI-90-X498-00	\$ 781,741	\$ -	\$ -	\$ 781,741	\$ (781,741)	\$ 781,741
Capital	MI-90-X419-00	152,000	(146,455)	151,487	5,032	-	5,032
Capital	MI-90-X478-00	305,870	-	990	990	-	990
CFDA Number 20.500 - Federal Transit Capital Investment Grants (Section 5309):							
Capital	MI-04-0003-00	1,188,000	-	-	50,562	(50,562)	50,562
CFDA Number 20.513 - Capital Assistance for Elderly and Disabled Persons (Section 5310):							
Capital	MI-16-0027	40,000	(40,000)	40,000	-	-	-
Total federal financial assistance			<u>\$ (956,095)</u>	<u>\$ 967,641</u>	<u>\$ 843,849</u>	<u>\$ (832,303)</u>	<u>\$ 843,849</u>

Federal funding is recorded in the financial statements as follows:

Non-operating revenue	\$ 843,849
Capital contributions	-
Total	<u>\$ 843,849</u>

Grants receivable per financial statements:

Federal funding (per above)	\$ 832,303
State funding (per page 14)	<u>13,054</u>
Total per financial statements	<u>\$ 845,357</u>

BATTLE CREEK TRANSIT SYSTEM
Schedule of State Grant Funding
For the Year Ended June 30, 2006

State/Pass-through Grantor Program Title/Program Number		Award Amount	(Accrued) Deferred Revenue at 6/30/2005	State Receipts	State Expenditures	(Accrued) Deferred Revenue at 6/30/2006	State Revenue Recognized
Michigan Department of Transportation							
Capital, Planning, and Operating Assistance:							
Capital	2002-0013/Z6	\$ 38,000	\$ (36,614)	\$ 36,613	\$ (1)	\$ 1	\$ (1)
Operating FY 2006		n/a		1,448,478	1,448,478	-	1,448,478
Capital FY02	2002-0597	10,000	(10,000)	10,000	-	-	-
Capital	2002-0013/Z17	297,000	-	-	12,641	(12,641)	12,641
Spec Svc 2005	2002-0013/Z11	78,353	(4,037)	19,837	15,800	-	15,800
Capital	2002-0013/Z14	24,000	-	-	248	(248)	248
Spec Svc 2006	2002-0013/Z13	81,329	-	60,999	61,165	(166)	61,165
Total state financial assistance			<u>\$ (50,651)</u>	<u>\$ 1,575,927</u>	<u>\$ 1,538,331</u>	<u>\$ (13,054)</u>	<u>\$ 1,538,331</u>

State funding is recorded in the financial statements as follows:

Non-operating revenue	\$ 1,538,331
Capital contributions	<u>-</u>
Total per financial statements	<u>\$ 1,538,331</u>

BATTLE CREEK TRANSIT SYSTEM
Schedule of Vehicle Miles
For the Year Ended June 30, 2006
(Unaudited)

	<u>Line-Haul</u>	<u>Demand- Response</u>	<u>Total</u>
First quarter (July - September)	109,515	51,664	161,179
Second quarter (October - December)	108,430	44,349	152,779
Third quarter (January - March)	108,820	43,185	152,005
Fourth quarter (April - June)	<u>109,515</u>	<u>39,470</u>	<u>148,985</u>
Total	<u><u>436,280</u></u>	<u><u>178,668</u></u>	<u><u>614,948</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

BATTLE CREEK TRANSIT SYSTEM
Schedule of Vehicle Hours
For the Year Ended June 30, 2006
(Unaudited)

	<u>Line-Haul</u>	<u>Demand- Response</u>	<u>Total</u>
First quarter (July - September)	7,741	4,272	12,013
Second quarter (October - December)	7,669	3,828	11,497
Third quarter (January - March)	7,671	3,680	11,351
Fourth quarter (April - June)	<u>7,709</u>	<u>3,684</u>	<u>11,393</u>
Total	<u><u>30,790</u></u>	<u><u>15,464</u></u>	<u><u>46,254</u></u>

The methodology used for compiling vehicles hours has been reviewed and found to be an adequate and reliable method for recording such information.